Architects Of The Future

Microsoft Corporation • 1993 Annual Report

Mission Statement

At Microsoft, one vision drives everything we do: a computer on every desk and in every home.

We are single-minded in our commitment to this vision. And we have maintained that singular focus ever since our company was founded in 1975.

This vision has created a revolution that's changed how people around the world do business. We believe that our own success, in large measure, has resulted directly from the effective use of our technology.

This vision is also shaping the future.

While we know that great possibilities lie ahead for us, we also know that the future will make great demands on us. At the same time we commit ourselves to delivering outstanding products today, we are also committing ourselves to creating the infrastructure that will define the information systems of the next 25 years and beyond. In addition, our hope is to make computer technology as indispensable at home as the telephone, and as widespread as the television.

To accomplish these objectives, we hire bright, talented people who share our enthusiasm for technology and our goal of making it easier for people to do more with personal computing.

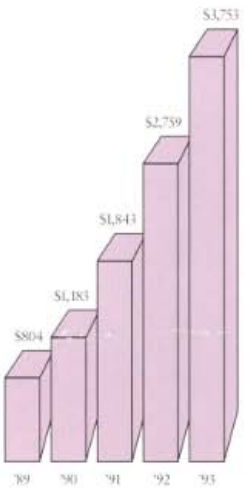
Ultimately, our dream is to put the power of computers—in business *and* at home—into people's hands so they can access, integrate, and use information more easily than ever before; what we call Information At Your Fingertips.

It's a dream we believe is within our reach, and within our capabilities.

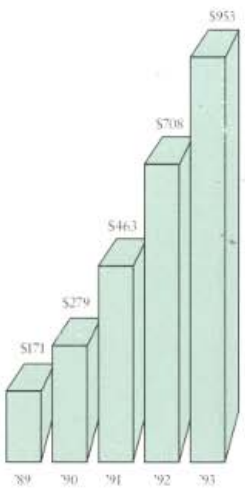
Financial Highlights

(In millions, except earnings per share)	Year Ended June 30				
	1993	1992	1991	1990	1989
Net revenues	$ 3,753	$2,759	$1,843	$1,183	$804
Net income	953	708	463	279	171
Earnings per share	3.15	2.41	1.64	1.04	0.67
Return on net revenues	25.4%	25.7%	25.1%	23.6%	21.3%
Cash and short-term investments	$2,290	$1,345	$ 686	$ 449	$301
Total assets	3,805	2,640	1,644	1,105	721
Stockholders' equity	3,242	2,193	1,351	919	562

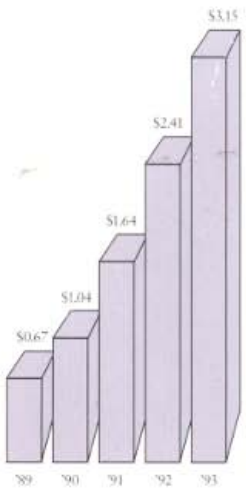
Net Revenues
(In millions)



Net Income
(In millions)



Earnings Per Share



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"We're continuing to build our solid core of desktop computing products, while springboarding into new markets and new media."

To Our Shareholders

William H. Gates
Chairman of the Board and
Chief Executive Officer

The electronic revolution has arrived, full force. And with it has come vast changes in how we work, how we play, how we interact, and even how we think.

Consider how the personal computer industry has evolved over the last decade.

In an average month, more personal computers are sold in the United States than VCRs.

While prices of computers keep going down, performance keeps going up. Today's machines operate at processing speeds a hundred times faster than those of a decade ago.

More people are working on more computerized hardware platforms than ever before—from desktops and laptops to office machines and personal information devices.

The vision we first articulated in 1975—the idea of a computer on every desk and in every home—is proving more possible with every passing year.

But with every advance and every success, we have also become more aware of how far we still need to go.

How can we better meet the evolving needs of business? How can we better reach the family, the home, the people who still don't use PCs? How can we prepare ourselves for the era of digital convergence that's just ahead, with its new possibilities for information distribution and exchange?

In short, the computer revolution is still in its infancy—with great possibilities still in front of us.

In this year's annual report, we want to introduce you to some of the people at Microsoft who are thinking about and crafting our future. These are people who are helping rethink what computer technology can do; who are reexamining what a computer is and where we are going to take our company in the years to come.

As we explore these new directions, we hope to put the raw power of computers to work in new ways, fundamentally improving how technology can serve our customers in their businesses and homes.

While we look ahead with great enthusiasm, we should also take a moment to look back at how far technology has come, and how fast.

There's no denying that we've advanced a long way from where we were 15, 10, and even just 5 years ago. For example, the bet we made in the early 1980s—that the graphical user interface would redefine the shape of computing—has paid off with the success of the Microsoft® Windows™ operating system and the adoption of it by companies and individuals around the world.

Today, while we celebrate that success, we also recognize the responsibilities it means to us: to support that huge base of more than 30 million customers and to provide them with both the information and applications they need now, and—equally important—a path to the future.

We have a responsibility to other companies in our industry as well, from the more than 110 hardware companies that produce computers equipped with Microsoft Windows,

Michael J. Maples
Executive Vice President,
Products

Steven A. Ballmer
Executive Vice President,
Sales and Support

to the more than 16 thousand independent software companies and consulting firms that are building programs for it. Similarly, we recognize our responsibility to the hundreds of corporations and government agencies that have selected the Windows operating system as the basis for their own innovative applications.

Our success with Windows has helped create many other success stories in our industry.

This is especially true among those companies that have shared our vision that this product could serve as the foundation for the next generation of computing. Windows has been called a "shot in the arm" for computer resellers around the world because it has helped bring customers into their stores and move hardware and software products—from Microsoft and from other companies—off their shelves.

Plus, Windows has created new market opportunities for both hardware and software companies. Recently, the Software Publishers Association announced that more Windows-based applications were being sold than any other kind, verifying a trend that has been growing steadily since 1990. The Windows operating system is the fastest-growing computing environment in the world today, and—with this year's announcement of the Microsoft Windows NT™ operating system—we expect to make Windows the foundation for the next decade of computing and beyond.

This change in the market has created some changes in our industry, as well. The companies that have been successful in the applications market for Windows have been the ones that have been willing to rethink how applications should work in a graphical environment. It isn't enough just to write for the Windows operating system—you have to be very imaginative and thoughtful about how to take advantage of the capabilities that the Windows platform provides.

Today, software companies are differentiated based on how well they understand how computers can be applied. To discern where computing is headed, all of our senior executives—including me—make it a point every quarter to spend time in the field with customers, to get a firsthand look at how we're doing. I wish I could tell you that we hear nothing but praise. But yes, sometimes customers *do* express dissatisfaction with one aspect or another of our products or our business, and yes, we hear them and we follow up on their concerns. What's even more important is that we build that knowledge into our operations and planning, reshaping how we do business so those concerns won't arise with other customers in the future.

But most of what we hear from these customers are ideas about how to build on our success; ideas of how we might use our leadership position in the industry to help drive innovation in technology.

We are about to enter, I believe, one of the most innovative periods in the history of the entire personal computer industry.

We're changing the definition of what a computer is by thinking beyond boxes on desks and imagining a new era of devices that will sit on top of televisions, inside office copiers, or in other places where computers haven't been before.

Financial Results

Revenues for the fiscal year reached record levels, driven in large part by the adoption of the Microsoft Windows operating system and Windows-based applications by users worldwide.

Revenues for the past 12 months equaled $3.75 billion, up 36% from the $2.76 billion recorded last year.

Net income was $953 million, compared to $708 million last year, an increase of 35%. Earnings per share totaled $3.15, up from $2.41 last year.

International Operations

Microsoft has operations in 41 countries. Revenues from customers outside the United States were more than $2 billion during the past 12 months, representing over 55% of total worldwide revenues.

To serve this global market, we localize all of our products in the languages spoken by our customers.

We're rethinking how our application products operate, making computer software work harder so people don't have to.

We're designing our operating system products for new hardware platforms, operating systems that serve as the heart of a new era of client-server computing in which computing power is distributed so people can use it most effectively.

And we're a part of the personal computing revolution that's taking this technology beyond the office desktop—into office devices, into the home, and even on the road.

While this broad vision of the future can mean some exciting business opportunities for us, it also means developing new alliances and new ways of working that go far beyond what people used to expect from a "software company." It means being at the forefront of new software category development, like the creation of content-based multimedia titles that will offer an alternative to how people think about the publishing business right now. And it means imagining new interfaces that are even easier to use and that are well suited to use in home and entertainment settings.

At Microsoft, we're taking these challenges very seriously, continuing to build our solid core of desktop computing products, while springboarding into new markets and new media.

As we work with the millions of customers around the world who have contributed to our success, we're confident we can build this future, putting the power of technology to work in ways that ultimately will reshape the computing world.

William H. Gates

William H. Gates

Microsoft corporate campus, Redmond, Washington


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Goal

"Companies expect us to deliver robust new applications—within the context of a complex existing environment—without a lot of development and support costs. They want products that are flexible, standard, interoperable, and *open*."

Enterprise Issues

Roger Heinen, Senior Vice President, Database and Development Tools, outlines Microsoft's pivotal role in meeting enterprise needs in the nineties.

The computing industry as we've known it since the fifties is gone. The idea of a very large, traditional company that competes by being the "complete supplier" to customers won't work in the nineties.

It's not possible anymore for any single company to have expertise in enough areas—hardware, software, networking, core technology, marketing, sales, and support—to meet all the needs of modern organizations, which are struggling to maintain their computing at the competitive edge, struggling with rapid change, and integrating divergent pieces from different divisions, regions, and countries.

At the same time, business customers all around the world who used to deal only with vendors that sold everything they needed—the wiring, the software, the service—are confused. What happened, they ask, to one-stop shopping, to the idea of that single company that can make it all work?

It's a new industry, with new rules and new opportunities. New challenges, too.

To deliver against those needs, the computer business has evolved into a more modern, *horizontal*, global industry in which smaller, specialist companies craft products in their unique areas of expertise—chips, systems software, graphical applications, computers, disks. It's more responsive and resilient, and much less structured. All of which is probably better for the computing buyer.

I say *probably* because this new structure has created a gap between what buyers of large computing environments expect—that is, the convenience of knowing that whatever they buy works right out of the box because it came from a single lab and factory—and what is now available to them in the marketplace.

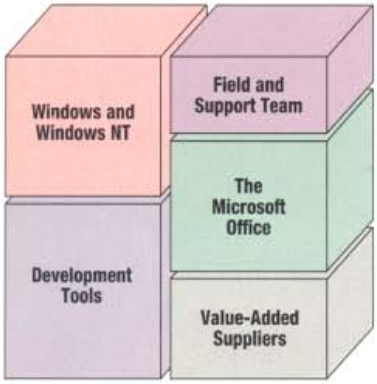
The organizations we work with are asking Microsoft to fill that gap: "Explain how this all fits together. Help us make it all work." We're ready to tackle these enormous challenges. But we don't want to attempt to solve these new challenges with the old approaches.

Instead, what makes sense for Microsoft is to concentrate only on those things we do best—systems software, applications, tools to build applications, core software technology, and user support—while nurturing a healthy community of other value-added suppliers that can complement our products to supply the complete needs of cutting-edge organizations.

Organizations want to foster internal collaboration and productivity. They want to be able to create and share data so their people can have the information they need at their fingertips. Organizations also demand that their computing environments be resilient to change, able to operate at whatever scale they require to meet their needs in the future.

Modern computing environments and tools can do all this.

But the demands don't stop here. Companies expect us to deliver robust new applications—within the context of a complex existing environment—without a lot of



The business architecture behind Microsoft's approach to working with large organizations involves both our own products and a worldwide community of value-added suppliers.

The Microsoft Executive Briefing Center, located at our campus in Redmond, Washington, provides corporate and government customers with an opportunity to see Microsoft products firsthand.

development and support costs. They want products that are flexible, standard, interoperable, and *open*. What's more, they demand that our products keep pace with technology.

And they want all this under the umbrella of the traditional, centrally managed computing operation, with the flexibility of distributed client-server computing.

Put together, all this is a tall order, but one that I believe we are equipped to deliver.

When I talk to organizations seeking new answers for these long-standing issues, I stress five interlocking components in Microsoft's nontraditional approach:

- **Microsoft Windows and Microsoft Windows NT.** Organizations looking for simplicity and low ownership costs for computing are interested in standardizing on a single systems architecture that will serve all their needs from the desktop to the data center. Windows does that today. It offers the functional richness and the scalability of traditional systems architectures, while also offering the flexibility to run on many different hardware configurations. As a de facto standard in the industry, it's available worldwide. It's a natural for functionally distributed computing. And it's evolving at a rate that's keeping pace with the changes in technology.
- **A family of application development tools.** Our line of development tools—the Microsoft Visual C++™ development system, Microsoft Visual Basic™ programming system, and Microsoft FoxPro® and Microsoft Access® database management systems—provides building blocks that span the needs of everyone from specialized component developers to power users who need to quickly prototype data analysis programs. In the same way that you can't do all your gardening tasks with a shovel, you can't write every piece of software with an assembler. The Microsoft family of high-tech tools is designed to suit the needs of different programmers and development scenarios. Each serves a specialized purpose, and the best applications for Windows are created with some combination of these tools: Visual C++ allows programmers to build reusable, high-performance software components. The FoxPro database makes it possible for developers to build line-of-business applications that depend on fast, accurate data access. Microsoft Access gives power users and developers the ability to create easy-to-use data access and analysis applications. Microsoft FORTRAN PowerStation lets technical users work in a graphical Windows-based environment, and build fast number-crunching applications that take advantage of existing code. Microsoft MASM lets developers write programs that are optimized for speed and size. And Microsoft Visual Basic is our core tool for bringing together real, custom business solutions.
- **The Microsoft Office.** The Microsoft Office combines our core desktop productivity tools in one package. What makes this suite of products particularly interesting to organizations is how well the applications work together and foster collaboration. The combination of OLE (object linking

Microsoft Solutions

How does Microsoft's approach work in a real-life scenario?

Imagine a large multinational bank that has already adopted a client-server computing solution. It has Windows-based systems on every desk, is building new servers on Windows NT, and is working in a mixed hardware environment.

Now the bank needs to open a new branch in central Asia. How does the Microsoft *business architecture* work for this bank?

Since Windows is available worldwide, the bank makes its best-possible deal locally on the computing components. The underlying architecture is the same, so it can deploy the bank's core applications on the remote systems, bring up local copies of the databases, and connect the Microsoft Windows NT–based servers to the central facilities.

Given the consistent design of the development tools, the bank can hire local "solution providers" and tailor the applications to local financial laws. Finally, it can contract with local suppliers for service and support. And all of it is supported by Microsoft.

and embedding) architecture and Microsoft Visual Basic, Applications Edition, will soon allow power users and developers to create specialized solutions for their organizations by stitching these application components into new custom applications.

- **A field and support team focused on showing the benefits of the Microsoft family of products.** Through Microsoft Consulting Services and the Microsoft Solution Providers program, our field team helps customers select the right products for their individual situations. To accomplish this our field team works with a community of value-added suppliers to help build awareness of customer needs.
- **A healthy community of value-added suppliers.** Software writers, application developers, and component suppliers offer enhancements to the Microsoft product family. Nurturing this community is key to fulfilling the specialized needs of organizations and enterprises worldwide. The most important, valuable, distinguishing characteristic of Microsoft's product strategy for enterprises and organizations is that we make sure we do not aspire to "do it all." Rather, we aspire to offer "best of breed" products within a wide community of value-added alternatives while making sure that customers know about the wide range of possibilities that is available to them.

These five architectural elements result in something that is certainly more complete than the traditional single-vendor strategy, while at the same time much more adaptable to changing needs. Using this architecture, we offer the benefits of the unified "desktop to data center" architectures of the past, but with some key new benefits. For example, because of the large community of value-added suppliers that surrounds our products, we can deliver more up-to-date solutions to more customers more quickly. When we don't have the complete solution, the community of support around us will quickly add on the necessary components.

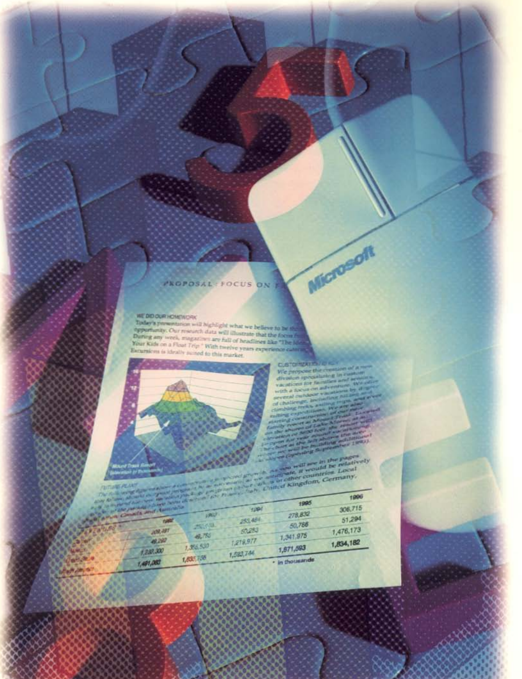
We believe this pragmatic approach delivers what our customers demand from us and represents the right foundation for modern organizational computing.

Are we done? Do we have a complete answer? Not yet.

We know that we can continue to improve our products, to make them work together even better. We can create better system technology for large organizations, more complete programming tools for enterprise applications, and so forth. Finally, we can certainly explain our approach and architecture more succinctly to our customers. So there is a lot more to do.

I recognize that this approach is nontraditional. But this is an industry built more on innovation than on tradition. And I believe that our approach can get the job done for organizations that want a way to make it all work.

—Roger Heinen


Microsoft
WE DID OUR HOMEWORK
Excursions is ideally suited to this market.
1995
1996
278,832
306,715
50,786
51,294
1,341,975
1,476,173
1,671,593
1,834,182
* in thousands

"We want to make it possible to delegate mechanical tasks to the computer, using the intelligence of the machine so people can concentrate on more important parts of their jobs."

Chris Peters, General Manager, Word Business Unit, describes the changing face of application products and how they will continue to evolve through the nineties.

I want to start my article by giving you a very personal perspective on Microsoft.

When I came to work here in 1981, the company was just starting to develop the first version of Microsoft Word, which shipped in 1983. I was a beginning programmer, fresh out of the University of Washington. One of my first assignments, in fact, was on the original version of Microsoft Word, figuring out how to display bold and italic text on the screen.

Today, a dozen years later, I'm the general manager of the Word Business Unit.

That sort of move—from developer to manager—isn't all that unusual here. We have many developers at Microsoft who follow the same sort of path, because the people who create our products are not just coders sitting in a back room being told what to do. Instead, they're creative individuals who understand the needs of our customers, and who look at the kinds of problems their brothers and sisters are facing and bring that firsthand knowledge to our products.

Recently, we celebrated the tenth anniversary of Word. In those ten years, we've become the largest word-processing company in the world.

When you add up all the units and revenue we generate from the different versions of Word we produce, our totals are bigger than any other word-processing company. And word processing is, of course, just one of our application categories. The kind of success we've had with Word has been mirrored by our success with the Microsoft Excel spreadsheet; and both together have helped create some great success stories with The Microsoft Office.

But despite those successes, I believe that the most important advances are still ahead of us. For example, consider my area—word processing. Some people think that word processors are becoming commodity products; that there's nothing significant left to add to the category.

When most people think about what's going to happen next in word processing, they usually think in terms of adding more desktop publishing features. I guess they have the view that a word processor is nothing more than some sort of bad desktop publisher and, if we work on it hard enough for enough years, we'll manage to create a product that's a lot more like one of the publishing packages sold today. But a word processor is meant to be the ultimate writing tool, whereas a desktop publishing program aspires to be the ultimate layout tool.

The truth is that most people don't need the kind of advanced functionality that's included in dedicated desktop publishing programs. What they do need is to perform a lot of their everyday tasks better. So in our latest version of Microsoft Word for Windows, we've made significant improvements on even the most basic operations, such as typing and selecting words.

For example, we discovered that most people don't actually use their spelling checker as the primary way to catch typographical errors. Instead, they reread as they

Instant Answers

When we at Microsoft talk about Information At Your Fingertips, we're talking about ushering in an era when a word processor can literally help you produce the content of a piece.

No word processor really does this today, or sees it as the role of a word-processing program. But we've taken a major first step with our combined edition of Microsoft Word and Microsoft Bookshelf® on CD-ROM.

When using these two products together, a word-processing user has 600 megabytes of data instantly available. And a writer using this package can get fast access to fairly obscure information.

For example, say that a writer is telling a story about a person in Africa sitting under a tree, but doesn't know the names of any African trees.

With Bookshelf it's quite easy: Scan the entire 600 megabytes for all information on trees in Africa, and—almost instantly—come up with five alternatives to choose from, with background information on each.

type, which interrupts their thinking and slows them down. A glaring error can stop the flow of their writing. And to fix it, they use the BACKSPACE key to get to the typo, destroying correctly typed words in the process. That's why, in the latest version of Word, we added a feature called AutoCorrect, which fixes common typographical errors automatically as you type.

If you think about it, the perfect word processor would be able to automatically write, edit, and format your documents for you.

Admittedly, these things are hard to do and they take a lot of processing power. But if you stop to consider that the Intel® Pentium™ machines will be at least a hundred times faster than the original PC, you'll recognize that we can now look for ways to use that power more productively. We can apply that speed in ways that let us make improvements to user interfaces that weren't possible even just a couple of years ago.

Let's think about that perfect word processor in more detail, starting with the formatting function.

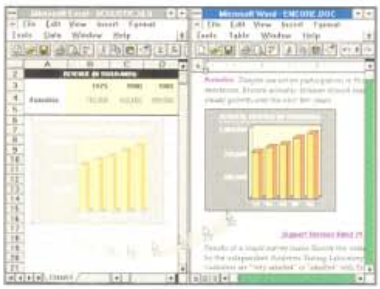
Automatic formatting is the ability to type the raw text of a document, press a single button, and have the computer format the document for you. The attitude of the user could be: "You're the machine, you do it. I don't want to learn the commands, and I don't have the art degree that's necessary to make it look good, anyway!" With this in mind, the latest version of Word for Windows includes an AutoFormat feature that can automatically bring a professional look to any document.

Automatic editing is a harder concept to get our hands around. The first thing you realize when you look at a word processor is that it's not really a *word* processor at all, but rather, a *character* processor. The typical program doesn't have a strong notion of where words start and stop, beyond recognizing a space as a natural breaking point. What we're trying to do is to move from a character processor to a word processor, and, ultimately, to an English sentence processor that's able to dynamically and intelligently correct sentences in the same way that AutoCorrect can fix typos. To do that, we're going to have to do much more research on natural language, to help the machine understand how words are used and the ideas the user is trying to express. But once we accomplish that, we'll be able to do some fantastic things, like automatically change sentences from passive voice to active voice and translate from one language to another.

Automatic writing is probably the one feature that everybody would love to have, but that nobody believes is possible. In a sense, however, we're able to deliver a portion of that feature today, as described in the sidebar on this page. We are admittedly, though, many years away from the era when the computer will do the writing for you, and I'm not sure that this is ever going to be a real objective for us. Instead, our objective is to free people so they can think and write in more innovative ways, so they can use the computer to free their own creativity.

We want to make it possible to delegate mechanical tasks to the computer, using the intelligence of the machine so people can concentrate on more important parts of their jobs.

To accomplish this, we have to determine quite precisely how people are using their computers right now, which is why we've done many different types of research to



Behind this new version of Microsoft Word for Windows is a team of developers working with research gleaned from a wide variety of testing procedures—from research in usability labs to instrumented versions of applications to person-to-person interviews.

understand how we can make our product better. For example, we changed the way we keep track of product support calls, moving to a statistical model that lets us capture 10 times more information than we did in the past. We've sent out instrumented versions of our application products, run a segmentation study of customers, and performed a study on hundreds of users of competitive products. What's more, we visited more than 100 customer sites in order to understand customer problems in real, everyday terms, so that we could map our solutions to their genuine needs.

The research didn't give us the answers, but it did give us the clues we needed to spark our own innovation. It's part of why we've been able to make such great strides not only in Word and in Microsoft Excel, but also in the integrated design of The Microsoft Office.

Most office tasks, we've discovered, really require a combination of applications—a user may pull data from a database, text from a word processor, and numbers and numerical analysis from a spreadsheet. The separation between word processors and spreadsheets has more to do with the history of product development in our industry than it does with the actual needs of users.

To better meet our customers' needs, we've equipped The Microsoft Office with a new enabling technology called OLE 2.0, which allows these applications to merge in new ways.

We're making the menu structures consistent for all the products that make up The Microsoft Office and basically getting rid of the notion of the user working in one application or another. The person using the product can focus on getting the job done, instead of focusing on using a particular tool.

We've been extremely successful at selling The Microsoft Office, primarily because we've thought long and hard about how these products could be integrated intelligently, instead of just throwing a bunch of applications together in one box. The concept has worked for us—more than half our sales of both Microsoft Word and Microsoft Excel are made through The Microsoft Office. And with our increasing emphasis on this product right now, I believe we will be offering an even more integrated, better-designed product in the months and years ahead.

But that's part of the excitement of being at Microsoft—we can keep pushing the technology envelope and keep making products better. The companies that aren't doing the things I've described—the detailed research and the commitment of resources to future products—are destined to fall behind the rest of the industry and out of touch with their users.

A lot of the best ideas we're putting into applications are still years away from being fully implemented. I look forward to the day when people can dictate aloud to a word processor with more ease and confidence than they can type today. We're exploring technologies like this already; we have, in fact, one of the world's experts in voice recognition in our Advanced Technology group right now.

In time, some of these great ideas will become great products.

— Chris Peters


ABC
2
JKL
5
8
OPER
VOICE
CONTROLS
ACE
DIAL

"By putting software into office systems, we're making technology adapt to people's needs, instead of the other way around."

Microsoft At Work

Karen Hargrove, Senior General Manager, Digital Office Systems, introduces new Microsoft technology for making office equipment integrated and easier to use.

Throughout the last decade, everyday office work has been irrevocably altered by the personal computer. Typewriters and dedicated word-processing systems are now oddities in many offices. High-quality laser printers are commonplace. Access to electronic mail systems has changed communication for millions of people.

The intense pace of product development and competition has spurred many advances in the PC industry. However, other office devices, such as fax machines, phones, and copiers, have not advanced in the same ways and at the same rate.

Today's office devices give you the ability to accept and generate more data. Yet synthesizing this data into timely, valuable information, and communicating it to people who can act on it, remain difficult. Editing a fax message usually requires retyping it into a computer, despite the fact that it was probably created on a computer. I can't visually sift through voice-mail messages to select the most important one to listen to first. Documents are distributed in different ways depending upon whether speed, quality, or the ability to edit is most important. "Fax, then overnight," "phone tag," and now "voice-mail tag" are daily events in the workplace.

The individual devices in today's office just don't *work together* very well.

And as newer devices of higher speeds and greater capabilities appear, the dual problems of data overload and incompatibility only get worse.

That's why four-and-a-half years ago we started a group at Microsoft to look at these problems in the workplace, determine what is needed to allow these devices to work together, and put users back in control of their communications and office machines.

This investigation led to the development of the Microsoft At Work™ architecture and software technology. Building on the existing business and technical infrastructure, the Microsoft At Work architecture focuses on creating digital connections between machines so information can flow freely throughout the workplace. The Microsoft At Work software technology will be incorporated into future office machines, including phones, printers, fax machines, hand-held systems, copiers, and hybrid office devices.

Best of all, the Microsoft At Work software technology will not only make this standard office equipment easier to use, it will also allow your PC and office machines to communicate with each other seamlessly.

Until now, Microsoft has been focused, for the most part, on software for personal computers. Now we will also be providing software technology to manufacturers of all office devices. This is a significant change, culminating in the creation of a whole new business area for Microsoft that will be developing over the next five years.

Why does it make sense for Microsoft to enter this business? As a leader in software technology, we are able to leverage our current strengths as we enter the market for office devices.

For example, our knowledge of software and graphical user interfaces will enable us to improve the usability of systems. We've drawn on our experience in creating open

Today In The Workplace...

"I wonder if the sales figures have been faxed from the field," said Carole. "Hmm, the voice-mail light is on, maybe it's a message about the fax. . . ."

You have 17 voice-mail messages.

"17? Maybe it would be easier to run downstairs and check.

"Here's the fax. Let's compare the sales figures to last quarter's. I'll re-type this fax data into a spreadsheet. . . .

"Now I want to distribute the numbers. Pat, can you pick up my printout, make copies for executive staff, fax copies to the field, and overnight copies to the international subs?"

Time from start to finish: 4 hours, 45 minutes; plus overnight delay to international offices.

A glimpse at the kinds of fax machines and phones that are possible with Microsoft At Work technology.

development platforms and operating systems to make it possible for independent software developers to use standard software tools to create innovative solutions that fit the needs of individual industries and offices.

For the user, all this comes together and provides the following:

- **Ease of use.** For example, I would like the fax machine to show me, with graphical images, what I need to do to change the toner or paper. I would like to see all of my voice-mail messages in a list and be able to listen to them in any order. When I'm listening to voice-mail and someone talks too fast for me to get their phone number, I'd like to be able to rewind slightly, just like I do on a tape deck, to hear the phone number again. I don't want to memorize cryptic sequences of keystrokes or have to consult a user's manual just to do these simple tasks.
- **Real integration between the PC, applications, and other office systems.** I would like to be able to receive the sales figures from the field as an "editable fax" that can be opened by Microsoft Excel and charted. I would like to use our corporate Microsoft Access database to get previous quarterly figures to create a comparative report. Once I complete my report, I want to "fax" it back out to the field directly from Microsoft Excel. This integration between applications and office systems will be possible with Microsoft At Work.
- **An enabling platform.** Microsoft At Work allows equipment manufacturers and software developers to create a broad family of solutions, just like they do for personal computers right now. Today, these office systems are "hardwired," in a sense. If I want to change the interface or add new functionality, I basically have to buy a whole new piece of equipment. It would be like having to buy a whole new computer every time I wanted to get a new application. With Microsoft At Work–based systems, I'll be able to "upgrade" my phone, copier, fax machine, printer, and hand-held system in the same way I can upgrade software for my computer.

Traditionally Microsoft has not had products or expertise in the office automation and telecommunications industries. That's why we recognize the importance of establishing relationships with leading companies in these areas to jointly define and create new office systems that incorporate the Microsoft At Work software.

On June 9, 1993, we announced the Microsoft At Work architecture.

At that time, more than 70 other companies announced that they were currently working with Microsoft and will support this architecture in their future products. By working with them, we are branching out to provide software technology that now transcends industries.

At the announcement, we demonstrated a wide range of concepts for possible future products with a variety of industry leaders, including: Windows-based hand-held companions with Compaq; printing systems with Hewlett-Packard; fax/PC integration products with Muratec (formerly Murata); fax/phone hybrid systems with NEC; phones with Northern Telecom; fax machines with Ricoh; and copiers with Xerox.

By working closely with these companies, we hope to create products that give people better control of communications and better access to information. In other words, by putting software into office systems, we're

By leveraging our experience from computer interface design, we've created this prototype of how a Microsoft At Work telephone interface might appear.

Tomorrow: With Microsoft At Work

"I wonder if the sales figures have been faxed from the field," said Carole. "Hmm, let me check my voice-mail on-screen to see if the fax has arrived.

"Great, here it is. Let's compare the sales figures to last quarter's. I'll just cut and paste this information from the fax into Microsoft Excel and generate a report. Then I'll enter it into our corporate database using Microsoft Access.

"Now I want to distribute the numbers. Using Microsoft Mail, I'll send the report directly to executive staff and fax it to the field and to international subs right from my computer."

Time from start to finish: 25 minutes; no delay in international distribution.

making technology adapt to people's needs, instead of the other way around.

The Microsoft At Work architecture is a solution that focuses on real user needs. Information is the lifeblood of an organization, yet the principal tools people use every day to create, manipulate, analyze, exchange, present, and communicate information are not connected. There is a tremendous need to move information both down the hall and across the globe. Making office equipment efficient and easy to use will permit people to get work done more quickly and cost-effectively.

What's more, it's a pragmatic solution. The world is not going to change overnight. Organizations will not discard existing, functioning equipment—much less rip out an entire base of installed systems—to get the incremental benefits of a new generation of office equipment.

Designed as a practical, evolutionary approach, the Microsoft At Work architecture defines a logical path to a more functional and well-integrated workplace. Microsoft At Work–based devices and products will be able to be deployed alongside, and be compatible with, existing office products. Microsoft At Work–based devices and products will build on the existing infrastructure. And what's more, the architecture and devices will integrate well with the widely used Microsoft Windows operating system and Windows-based applications.

Finally, and perhaps most important, the Microsoft At Work architecture relies upon our working closely with other companies to create these products. Thus, no single company faces the enormous challenge of producing the best product in every category to deliver on this vision. By incorporating Microsoft At Work software, vendors can devote their resources to excellence in their own markets, and to producing high-quality, compatible products that build upon a single broad, open platform. And the result will be a wide variety of compatible products and services from which customers can pick and choose.

How does this fit with Microsoft's overall strategies and vision?

In November 1990, Bill Gates described the company's direction for the future as Information At Your Fingertips, a statement that embodies the ability to get the information we need quickly and easily, when and how we need it, from wherever it resides.

The Microsoft At Work architecture is the next logical step in Microsoft's effort to deliver on Information At Your Fingertips. Microsoft At Work–based devices will concentrate on the enhancement of familiar office products and their integration into an underlying information framework.

Microsoft fully expects the depth and strength of product innovation based on the Microsoft At Work architecture to result in the development of a wide variety of high-quality products. Many existing companies will be successful in this market. Many new companies with products that we cannot yet envision will also make a significant market impact.

We believe offices that use this equipment will be more efficient, cost-effective, and functional—places in which the talent and creativity of individuals will be truly enhanced by the capabilities that Microsoft At Work can deliver.

—Karen Hargrove


400 BC
600 BC
Persian Empire
The Classical Period
Phoenician Traders
Olmec Civilization in Mexico

"Our motto is 'software for people, not computers.' We want to create software that enables all adults to gain control over these pesky devices, while also empowering the next generation to fully master them."

Microsoft Home

Bruce Jacobsen, General Manager, Entry Business Unit, talks about how we're bringing computers into the homes and lives of a new generation of customers.

My friends think I'm smart because I work at Microsoft, which is kind of worrisome. They figure that since I can answer all sorts of questions about our software, I must know a lot.

But the truth is that sometimes I feel a little deflated after answering their questions. Often, I helped to design the software they're asking about. And the things they didn't understand were *supposed* to be simple.

This problem goes beyond my friends. It's an industry-wide issue, in fact, involving software from virtually every company in the business. In one usability test after another, we've found that even very sophisticated people—research physicists, biologists, doctors, and so forth—are using only a small percentage of their software's functionality. They regard software as a mine field through which they maneuver their way carefully, learning one path through it and never discovering the rest of its capabilities.

Fortunately for Microsoft, we do better than most in these usability tests. Fortunately for the industry, most current users of software are still willing to tolerate this situation. Computers are a requirement of many people's jobs, so they persevere. They are offered classes, or are told they can "ask the person across the hall who really likes computers," or someone suggests that they call the product support department. People today also seem ready to assume that the computers are right and they're wrong, since they keep hearing that "computers are the future."

But Microsoft wants people to think about using a computer in the same way they would think about going to a movie or calling a friend—as a fun thing to do, a part of their everyday lives.

To accomplish this, we're designing a new generation of software that goes far beyond the traditional business-focused design of many products today. While we want to build on the phenomenal success and momentum that Microsoft has enjoyed with Windows, we also recognize that reaching these new markets will require us to think about our products in new ways and to add some pieces to the software puzzle that haven't been there before.

The first key piece we're looking at is "what goes on top"—the interface that you use to make the software perform. Currently, most interfaces could be called "passive aggressive." They sit there waiting for you to do something, and if you make a mistake, you're in trouble. Passive aggressive behavior is considered unattractive in people, and it's less than ideal for computers, as well.

What we want instead is what we might loosely call a "social interface." This type of software would get to know you and anticipate your needs. It would actively present you with options at each stage in your work, suggesting what you could do next. It would introduce itself over time, piece by piece, teaching you basics and presenting new tools. And perhaps just as important, this software would have an approachable personality, an open attitude.

As part of the product definition stage for an upcoming program, Microsoft developers interviewed potential customers and followed them around their homes, collecting more than a thousand individual pieces of information that are collected in this room for review and analysis.

We might describe this new breed of software with a metaphor about making a meal. Software today requires you to cook your own meal—you can make anything you want, as long as you have the recipe and the time to go shopping and cook. But you still have to learn how to cook. Software tomorrow, on the other hand, may more closely resemble a restaurant—a waiter presents you with choices and you make your selections. Every restaurant won't offer every choice, but there will be a range of restaurants offering everything from fast food to gourmet meals.

You can already see the beginnings of this kind of thinking in our products today. Our award-winning (and already the best-seller in its category) desktop publishing package, Microsoft Publisher, features a technology called "wizards." Wizards walk a user step-by-step through the creation of documents such as newsletters. They ask the user a series of questions (for example, "What style of newsletter are you looking for?") and then offer a series of choices (Classic, Modern, Jazzy, Seasonal, Art Deco). They show snapshot previews of what each choice will look like. Then, based on the user's responses, Publisher automatically lays out the document. Despite the apparent simplicity of this tool, it required some fairly advanced technology and smart thinking to create.

In the same way we're thinking hard about interface questions, we're also thinking hard about content issues, in reference to both information and expertise. Microsoft is already a well-recognized information provider within the world of compact disc–based multimedia. Recently, for example, Microsoft's titles accounted for four of the top ten titles, according to one distributor's hot list. These titles include everything from the Microsoft Encarta™ multimedia encyclopedia to the Microsoft Cinemania™ interactive movie guide. Each of these titles offers millions of words on disc, complemented by pictures, video, sound, and—most critical—dozens of ways to explore and use all that information.

The other, more subtle aspect of content is expertise, something else that can be displayed by the wizards feature. During its development, the designers of Publisher realized that making the product easy to use also meant that a lot of disappointing newsletters would be produced by people who didn't know anything about publishing or graphics.

To address that concern, our developers and designers put their expertise into wizards. After Publisher asks users what type of "look" they want, the program then makes decisions about a dozen different components, from the typeface to the design of the masthead.

In addition to providing users with expertise they may not already have, wizards also introduce those users to new ideas. For example, publications such as this annual report use wider margins (called "gutter margins") for the inside of the page to accommodate the binding. These wider margins on the inside are required to give the reader the illusion of equal margins. Publisher asks if the user wants to create a document like this report and, if so, it automatically creates wider inside margins, thus introducing both a design concept and additional product functionality that the user may not have already explored.

Thinking about new technologies like these has also gotten us thinking about new types of customers—children, for example.

Kids As Critics

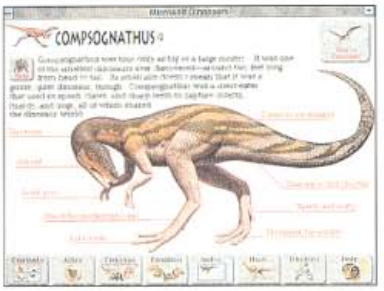
As we have entered the consumer market, we've gone out of our way to invite criticism.

The development teams for upcoming consumer products have volunteered an afternoon every week to work in schools to introduce students to our software.

Children, we've discovered, use software differently than adults do. They like it to be inviting and varied, while their parents may tend to take a more utilitarian view.

Children can be the best critics, because they respond directly. They'll tell us what's hot and what's not, without us needing to probe very much!

Our hope is to create a new generation of software that's in touch with this generation of kids, preparing them for tomorrow while making their learning experiences richer today.



Microsoft Dinosaurs goes deep into the forest primeval and brings users face-to-face with those incredible animals that roamed and ruled the earth. Dinosaurs features over 1,000 full-color illustrations and photos and nearly 200 fact-filled articles.

Over the next year, the Consumer Division will be introducing several titles designed specifically for the grammar-school- and high-school-age markets.

While parents and educators might argue about the overall merit of entertainment systems like those from Nintendo or Sega, we've discovered that they have provided one way to prepare children for technology.

We adults are accustomed to using appliances like dishwashers and refrigerators. But there's little room for "exploring" the technology inside your refrigerator, and if you explore improperly, the result might easily be a $125 repair bill.

On the other hand, children have been conditioned by Nintendo and Sega. These systems have been designed so that they are difficult to break. Many of the games are built around fantasy worlds that encourage children to explore and try new things. What's more, the games are designed to "crash"—to reset the user back to zero—so if something goes wrong, the child just starts over again.

These attitudes are what we're trying to introduce into software as well—making it possible for children to learn products quickly and have a great time doing it—while providing a lot of creative rewards and surprises. And our challenge is to allow kids to combine play with creation, so that they can build wonderful things on the computer.

Our commitment is to provide the very best quality of software for children—to take advantage of Microsoft's technology and provide it in a context and style children will love.

We believe this is an important contribution to the next generation. Some of the challenges in education are well known. And in most subjects, from physics to literature, many schoolchildren all too quickly run into limitations. But with computers and software—especially with the rapid decline in hardware prices—children can have access to a universe of information on any subject that interests them, and be able to explore that information in a way that's far more approachable and appropriate than what they could do even with books.

As you read this, you may be asking: "What market potential exists for this technology? Isn't most software today business software?"

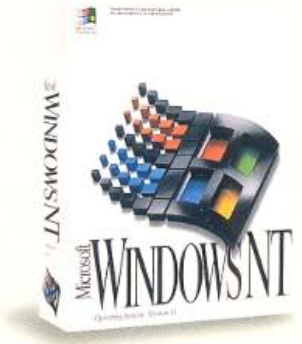
There are several responses to this. First, the kind of thinking I've detailed here is rapidly being adapted in our "high-end" software. Companies are realizing that training people how to use software frequently costs more than the software itself, which has motivated us to become leaders in creating software that's easy to use.

But perhaps more important, the potential of microprocessors and software has only begun to be tapped, particularly in the home. While software companies may reach saturation in some parts of the corporate market, it will be years before that problem confronts vendors in the home. What's more, we see the home computer market continuing to expand as people purchase their second computers, which could be in the form of an intelligent device attached to a television or a computer the size of a wallet.

Ultimately, our mission is to give people control over technology. In the Consumer Division at Microsoft, our motto is "software for people, not computers." We want to create software that enables all adults to gain control over these pesky devices, while also empowering the next generation to fully master them.

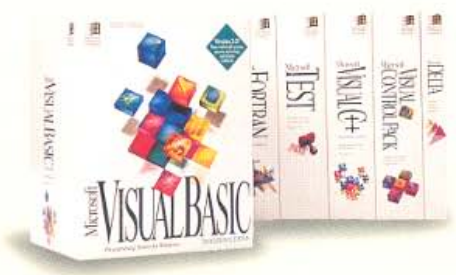
—Bruce Jacobsen

Product Activity



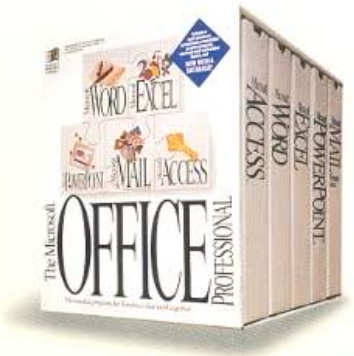
Microsoft Windows NT gained media attention and BYTE magazine's "Best of Show" award at its May introduction at COMDEX.

Microsoft continues to be the premier developer of Macintosh® applications, producing upgrades of Microsoft Word, Microsoft Works, and other products this year.

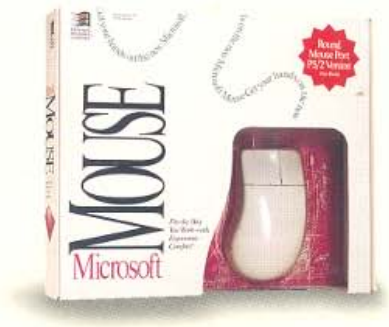


Our full line of visual development tools was updated, highlighted by new versions of Microsoft Visual Basic, which will also be incorporated as the common language across Microsoft application products.

We began development of a new generation of home-oriented interfaces designed for a new generation of computer users.

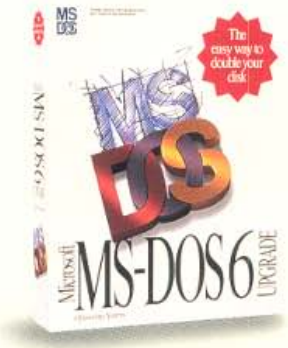


Shifts in software purchase patterns, coupled with the ease of using multiple applications with the Windows operating system, helped prompt the success of The Microsoft Office.



The dramatic, award-winning design of the Microsoft Mouse offers a more comfortable and ergonomic feel.

Several multimedia titles—including the Encarta encyclopedia—appeared on retail shelves, helping to spark the market for CD-ROM drives.



Released in March, more than 4 million copies of the MS-DOS® 6 Upgrade shipped in the first two months of its availability.

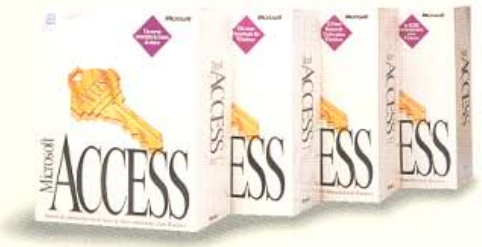
Business Activity

Microsoft added several new subsidiaries and sales offices to better serve our customers around the world.

The Microsoft manufacturing group's commitment to quality has enabled us to meet the growing demand for our products.

Microsoft Select, a major innovation in product licensing, pulls together our worldwide licensing options.

The Microsoft corporate giving program donated $3.5 million to arts, education, civic, and human service agencies, much of it through matching funds for employee donations.



Many products are localized for simultaneous shipment in multiple languages at introduction.

The "Upgrade Your World" retail promotion encouraged customers to move up to the latest versions of their Microsoft products.

Microsoft Press® books, sold in book and software stores throughout the world, provide training, support, and practical advice in 26 languages.

Product Support Services answered more than 20,000 phone calls a day from three sites around the U.S.

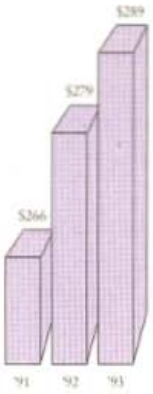
Microsoft Corporation 1993 Financial Results

Table Of Contents

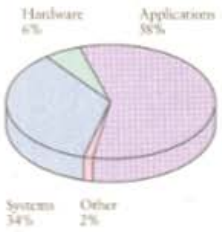
(In millions)

Net Revenues Per Employee

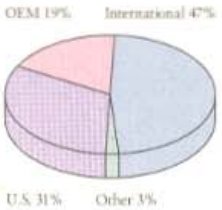
(In thousands)



Revenues by Product Group—1993



Revenues by Sales Channel—1993



Results of Operations

Overview

Microsoft's business strategy emphasizes the development and sale of a broad line of microcomputer software products, including operating systems for personal computers, office machines, and personal home devices; languages; and applications programs; as well as personal computer books, hardware, and multimedia products.

Net Revenues

	1993	Change	1992	Change	1991
Net revenues	$3,753	36%	$2,759	50%	$1,843

Product Groups. Operating systems product group sales were $1,267 million, $1,104 million, and $668 million in 1993, 1992, and 1991. Revenues from the Microsoft MS-DOS operating system increased steadily in both 1993 and 1992. Additionally, releases of new retail upgrade versions (MS-DOS 6 Upgrade in 1993 and MS-DOS 5 Upgrade in late 1991) increased revenues year over year. Industry sources indicate the installed base of MS-DOS is approximately 120 million personal computers as of June 30, 1993. The MS® Windows operating system was an increasingly strong contributor to systems revenues during the three-year period. As of June 30, 1993, the installed base of MS Windows is over 30 million PCs.

Applications product group revenues were $2,173 million, $1,363 million, and $935 million in 1993, 1992, and 1991. Increases in applications revenues were led by sales of Windows-based products, particularly The Microsoft Office. The Microsoft Office includes Microsoft Excel, Microsoft Word, a Microsoft Mail license, and the Microsoft PowerPoint® presentation graphics program. Sales of Microsoft Excel and Microsoft Word for Windows also increased in both 1993 and 1992. Microsoft Access, a new database management product released during 1993 with introductory pricing, was a strong contributor to revenue growth. Windows-based software programs represented approximately 75% of applications product group revenues in 1993, up from approximately 65% in 1992 and 50% in 1991.

Versions of The Microsoft Office, Microsoft Excel, and Microsoft Word for the Macintosh also contributed to applications revenue growth, with increased sales in 1993 and 1992. Macintosh products represented approximately 13% of total applications revenues in 1993, and 19% in 1992 and 1991.

Hardware product group revenues were $233 million, $254 million, and $213 million in 1993, 1992, and 1991. The hardware product group's principal products are the Microsoft Mouse and BallPoint® mouse pointing devices. Demand for these and competing products is linked to that for the Windows operating system, which is enhanced by using a mouse.

Sales Channels. The Company has three major channels of distribution: U.S., International, and OEM. Sales in the U.S. and International channels are primarily to distributors and resellers. OEM channel revenues are license fees from original equipment manufacturers.

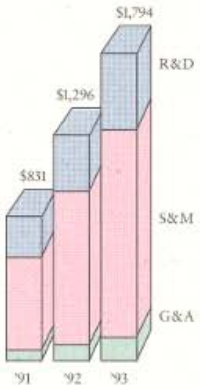
U.S. channel revenues increased 28% in 1993 to $1,182 million. Revenues were $926 million in 1992 and $563 million in 1991.

Revenues in Europe were $1,259 million, $997 million, and $688 million in 1993, 1992, and 1991. Other international revenues were $504 million, $313 million, and $207 million, respectively.

The Company's operating results are affected by foreign exchange rates. Revenues collected in foreign currencies represented 44%, 46%, and 47% of total revenues in 1993, 1992, and 1991. Since much of the Company's international manufacturing costs and operating expenses are incurred in local currencies, the total impact of exchange rates on net income is less than on revenues.

OEM revenues (primarily operating systems) grew 53% from the prior year to

Operating Expenses
(In millions)



$731 million. OEM revenues were $477 million in 1992 and $337 million in 1991. MS-DOS continues to be preinstalled on many personal computers sold by OEMs. In addition, many major original equipment manufacturers are preinstalling Windows on personal computers, leading to increased revenues through the OEM channel. During 1993, approximately 75% of total Windows units were sold through the OEM channel, up from approximately 50% in 1992 and 40% in 1991.

Cost of Revenues

	1993	Change	1992	Change	1991
Cost of revenues	$633	36%	$467	29%	$362
Percentage of net revenues	16.9%		16.9%		19.6%

Cost of revenues as a percentage of net revenues was 16.9% in 1993 and 1992, down from 19.6% in 1991. Cost of revenues can vary with the channel mix, product mix within channels, and price changes.

Operating Expenses

	1993	Change	1992	Change	1991
Research and development	$ 470	34%	$352	50%	$235
Percentage of net revenues	12.5%		12.8%		12.8%
Sales and marketing	$1,205	41%	$854	60%	$534
Percentage of net revenues	32.1%		31.0%		29.0%
General and administrative	$ 119	32%	$ 90	45%	$ 62
Percentage of net revenues	3.2%		3.3%		3.4%

Increases in research and development expenses resulted primarily from planned additions to the Company's software development staff and higher levels of third-party development costs. As of June 30, 1993, the Company employed approximately 4,000 people in product research and development, compared to 3,400 in 1992 and 2,700 in 1991.

Increases in sales and marketing expenses have been due to planned hiring of marketing personnel, increased advertising for the launch of new products and marketing programs, including television and radio advertising, and further development of Product Support Services. These increases have occurred in the U.S., in Europe, and in other geographic areas.

Increases in general and administrative expenses are primarily attributable to the growth in the systems and people necessary to support overall increases in the scope of the Company's operations.

Nonoperating Income

	1993	Change	1992	Change	1991
Nonoperating income	$75	67%	$45	114%	$21
Percentage of net revenues	2.0%		1.6%		1.1%

The primary component of nonoperating income is interest income, which was $83 million, $58 million, and $42 million in 1993, 1992, and 1991. Increased interest income is the result of a larger investment portfolio generated by cash from operations, offset in both 1993 and 1992 by declining interest rates.

Provision for Income Taxes

	1993	Change	1992	Change	1991
Provision for income taxes	$448	35%	$333	60%	$208
Percentage of net revenues	11.9%		12.1%		11.3%
Effective tax rate	32.0%		32.0%		31.0%

The effective tax rate was 32% in 1993 and 1992, and 31% in 1991. Notes To Financial Statements describe the differences between the U.S. statutory and effective income tax rates.

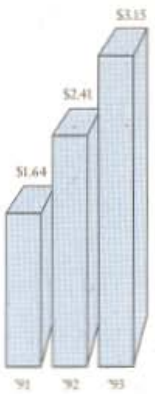
Net Income and Earnings Per Share

	1993	Change	1992	Change	1991
Net income	$953	35%	$708	53%	$463
Percentage of net revenues	25.4%		25.7%		25.1%
Earnings per share	$3.15	31%	$2.41	47%	$1.64

Net income as a percentage of net revenues decreased slightly in 1993, primarily due to higher relative sales and marketing expenditures. The increase in net income as a percentage of net revenues in 1992 was attributable to higher gross margin.

Income Statements

Earnings Per Share



(In millions, except earnings per share)	Year Ended June 30		
	1993	1992	1991
Net revenues	$3,753	$2,759	$1,843
Cost of revenues	633	467	362
Gross profit	3,120	2,292	1,481
Operating expenses:			
Research and development	470	352	235
Sales and marketing	1,205	854	534
General and administrative	119	90	62
Total operating expenses	1,794	1,296	831
Operating income	1,326	996	650
Interest income — net	82	56	37
Other	(7)	(11)	(16)
Income before income taxes	1,401	1,041	671
Provision for income taxes	448	333	208
Net income	$ 953	$ 708	$ 463
Earnings per share	$ 3.15	$ 2.41	$ 1.64
Weighted average shares outstanding	303	294	282

See accompanying notes.

Outlook: Issues and Risks

The Company's 1993 Annual Report includes discussions of its long-term growth outlook. The following issues and risks, among others, should be considered in evaluating its outlook.

Rapid technological change. The personal computer software industry is characterized by rapid technological change and uncertainty as to the widespread acceptance of new products.

Long-term investment cycle. Developing, manufacturing, and selling software is expensive and the investment in product development often involves a long pay-back cycle. The Company began investing in the principal products that are significant to its current revenues in the early 1980s. The Company's plans for 1994 include significant investments in software research and development and related product opportunities from which significant revenues are not anticipated for a number of years. Competitors of the Company may clone the Company's products without the cost burden of such long-term investment.

The Microsoft Office. Management expects revenues from The Microsoft Office to increase as a percentage of total revenues in 1994. The price of The Microsoft Office is less than the sum of the prices for the individual application programs included in this product when such programs are sold separately.

Prices. Future prices the Company is able to obtain for its products may decrease from historical levels, depending upon market and other cost factors.

Upgrades. Product upgrades, enabling users to upgrade from earlier versions of the Company's products or from competitors' products, have lower prices than new products. Unit sales represented by product upgrades increased in 1993 and 1992. This trend is expected to continue in 1994.

Introductory pricing. The Company offered certain new products at lower introductory prices during 1993. This practice may continue with other new product offerings.

Channel mix. Average revenue per license is lower from OEM licenses than from retail versions, reflecting the relatively lower direct costs of operations in the OEM channel. An increasingly higher percentage of Windows was sold through the OEM channel during 1993 and 1992. The Company expects this trend to continue in 1994.

Volume discounts. In 1993, unit sales increased under Microsoft Select, a large account program designed to permit large organizations to easily obtain Microsoft products. This program includes volume licensing alternatives and special upgrade, documentation, and installation options. This program has been popular with large enterprises, and revenues under this program are expected to increase in 1994.

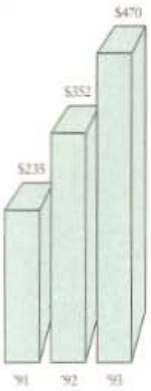
Foreign exchange. A large percentage of the Company's sales is transacted in local currencies. As a result, the Company's revenues are subject to foreign exchange rate fluctuations.

Cost of revenues. Although cost of revenues as a percentage of net revenues was relatively consistent in 1993 and 1992, it varies with channel mix and product mix within channels. Changes in channel and product mix, as well as in the cost of the components of the Company's products, may affect cost of revenues as a percentage of net revenues in 1994.

Sales and marketing and support investments. The Company's plans for 1994 include continued investments in its sales and marketing and support groups. Competitors may be able to enter the market without making investments of such scale.

R&D Spending

(In millions)



Income taxes. New U.S. tax legislation has been enacted. The new legislation and related regulations and interpretations will increase the Company's effective income tax rate in 1994.

Accounting standards. Accounting standards promulgated by the Financial Accounting Standards Board change periodically. Changes in such standards, including currently proposed changes in the accounting for employee stock option plans, may have a negative impact on the Company's future reported earnings.

Unlicensed copying. Unlicensed copying of software represents a loss of revenues to the Company. The Company is actively educating consumers and lawmakers on this issue. During 1993, new software copyright laws were passed and enforced in Italy, contributing to increased revenues in that country. The Company will continue to devote resources to this issue. However, there can be no assurance that continued efforts will affect revenues positively.

Growth rates. Management does not expect 1994 revenue growth rates to be as high as those for 1993. Operating expenses as a percentage of revenues may increase in 1994 because of the above factors, among others.

Other. See Notes To Financial Statements regarding other factors concerning the Company, including contingencies related to government regulation and legal proceedings.

Financial Condition

The Company's cash and short-term investments totaled $2,290 million at June 30, 1993 and represented 60% of total assets. The portfolio is diversified among security types, industry groups, and individual issuers. The Company's investments are investment grade and liquid.

Microsoft has no material long-term debt. Stockholders' equity at June 30, 1993 was over $3.2 billion.

Cash generated from operations has been sufficient to fund the Company's investment in research and development activities and facilities expansion. As the Company grows, investments will continue in research and development in existing and advanced areas of technology. Cash may also be used to acquire technology or to fund strategic ventures. Additions to property, plant, and equipment are expected to continue, including new facilities and computer systems for development, sales and marketing, product support, and administrative staff.

The exercise of stock options by employees provides additional cash. Funds received have been used to repurchase the Company's common stock on the open market, to provide shares for stock option and stock purchase plans. This practice is expected to continue in 1994.

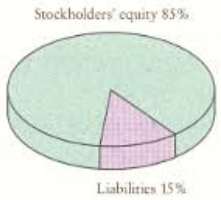
The Company has available $85 million of standby multicurrency lines of credit. These lines support foreign currency hedging and international cash management.

Management believes existing cash and short-term investments together with funds generated from operations will be sufficient to meet the Company's operating requirements in 1994.

Balance Sheets

Assets—1993

Liabilities & Stockholders' Equity—1993

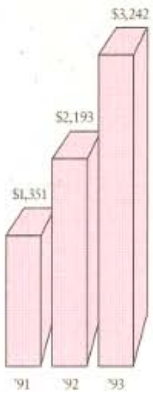


(In millions)	June 30	
	1993	1992
Assets		
Current assets:		
Cash and short-term investments	$2,290	$1,345
Accounts receivable — net of allowances of $76 and $57	338	270
Inventories	127	86
Other	95	69
Total current assets	2,850	1,770
Property, plant, and equipment — net	867	767
Other assets	88	103
Total assets	$3,805	$2,640
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 239	$ 196
Accrued compensation	86	62
Income taxes payable	127	73
Other	111	116
Total current liabilities	563	447
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock and paid-in capital — shares authorized 500; issued and outstanding 282 and 272	1,086	657
Retained earnings	2,156	1,536
Total stockholders' equity	3,242	2,193
Total liabilities and stockholders' equity	$3,805	$2,640

See accompanying notes.

Statements Of Stockholders' Equity

Stockholders' Equity
(In millions)

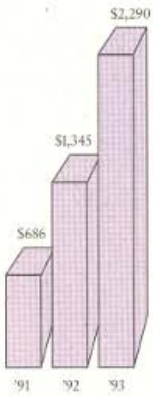


(In millions)	Year Ended June 30		
	1993	1992	1991
Common stock and paid-in capital			
Balance, beginning of year	$ 657	$ 395	$ 220
Common stock issued	229	135	95
Common stock repurchased	(7)	(3)	(5)
Stock option income tax benefits	207	130	85
Balance, end of year	1,086	657	395
Retained earnings			
Balance, beginning of year	1,536	956	699
Common stock repurchased	(243)	(132)	(192)
Net income	953	708	463
Translation adjustment	(90)	4	(14)
Balance, end of year	2,156	1,536	956
Total stockholders' equity	$3,242	$2,193	$1,351

See accompanying notes.

Cash & Short-Term Investments

(In millions)



(In millions)	Year Ended June 30		
	1993	1992	1991
Cash flows from operations			
Net income	$ 953	$ 708	$463
Depreciation and amortization	151	112	76
Current liabilities	177	167	107
Accounts receivable	(121)	(33)	(65)
Inventories	(51)	(40)	8
Other current assets	(35)	(18)	(18)
Net cash from operations	1,074	896	571
Cash flows from financing			
Common stock issued	229	135	95
Common stock repurchased	(250)	(135)	(197)
Stock option income tax benefits	207	130	85
Net cash from financing	186	130	(17)
Cash flows used for investments			
Additions to property, plant, and equipment	(236)	(317)	(264)
Other assets	(17)	(41)	(40)
Short-term investments	(723)	(284)	(77)
Net cash used for investments	(976)	(642)	(381)
Net change in cash and equivalents	284	384	173
Effect of exchange rates	(62)	(10)	(2)
Cash and equivalents, beginning of year	791	417	246
Cash and equivalents, end of year	1,013	791	417
Short-term investments	1,277	554	269
Cash and short-term investments	$2,290	$1,345	$686

See accompanying notes.

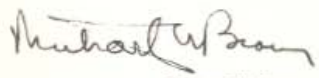
Report of Management

Management is responsible for preparing the Company's financial statements and related information that appears in this annual report. Management believes that the financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition and results of operations in conformity with generally accepted accounting principles. Management has included in the Company's financial statements amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The Company maintains a system of internal accounting policies, procedures, and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with Company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded.

Deloitte & Touche audits the Company's financial statements in accordance with generally accepted auditing standards and provides an objective, independent review of the fairness of reported financial condition and results of operations.

The Board of Directors of the Company has an Audit Committee composed of nonmanagement Directors. The Committee meets with financial management, the internal auditors, and the independent auditors to review internal accounting controls and accounting, auditing, and financial reporting matters.



Michael W. Brown
Vice President, Finance; Treasurer

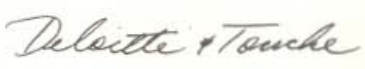
Report of Independent Auditors

To the Board of Directors and Stockholders of Microsoft Corporation:

We have audited the accompanying balance sheets of Microsoft Corporation and subsidiaries as of June 30, 1993 and 1992, and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Microsoft Corporation and subsidiaries as of June 30, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1993 in conformity with generally accepted accounting principles.



Deloitte & Touche
Seattle, Washington
July 28, 1993
(August 20, 1993 as to Contingencies Note)

Significant Accounting Policies

Business. The Company develops, produces, markets, and supports a wide range of software for business and personal use, including operating systems, languages, and applications, and also provides personal computer books, hardware, and multimedia products.

Principles of consolidation. The financial statements include the accounts of Microsoft and its wholly owned subsidiaries. Significant intercompany transactions and balances have been eliminated.

Foreign currencies. Current assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Fixed assets and resulting depreciation are translated at historical rates. Translation adjustments resulting from this process are charged or credited to equity. Revenues, costs, and expenses are translated at average rates of exchange prevailing during the year. The balance in the cumulative translation adjustment account at June 30, 1993 decreased stockholders' equity by $89 million. Gains and losses on foreign currency transactions and hedge contracts are included in other expense.

Revenue recognition. Revenue from sales to distributors or dealers is recognized when related products are shipped. Revenue from products licensed to original equipment manufacturers is recognized ratably over the license period. License fees received prior to product acceptance are recorded as customer deposits.

Warranties and returns. The Company warrants products against defects and has policies permitting the return of products under certain circumstances. The Company's reserve for warranties and returns was $63 million and $41 million at June 30, 1993 and 1992.

Research and development. Research and development costs are expensed as incurred. Financial accounting rules requiring capitalization of certain software development costs do not materially affect the Company.

Income taxes. Income tax expense includes U.S. and international income taxes, plus an accrual for U.S. taxes on undistributed earnings of international subsidiaries. Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax affected difference is reported as deferred income taxes. Tax credits are accounted for as a reduction of tax expense in the year in which the credits reduce taxes payable.

Earnings per share. Earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options, computed using the treasury stock method.

Cash and short-term investments. The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Short-term investments are stated at the lower of cost or market. Cost approximates market value for all classifications of cash and short-term investments.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property, plant, and equipment. Property, plant, and equipment is stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 years
Leasehold improvements	Lease term
Computer equipment and other	3–5 years

Diversification of risk. The Company's investment portfolio is diversified and consists of short-term investment grade securities. At June 30, 1993 and 1992 approximately 40% and 35%, respectively, of accounts receivable represented amounts due from ten customers. Two customers each accounted for approximately 10% of revenues in 1993. The Company hedges certain foreign exchange exposures and had $33 million of hedge contracts outstanding at June 30, 1993.

Reclassifications. Certain reclassifications have been made for consistent presentation.

Cash and Short-Term Investments

(In millions)	June 30 1993	1992
Cash and equivalents:		
Cash	$ 225	$ 200
Commercial paper	326	244
Money market preferreds	159	144
Certificates of deposit	160	128
Bank loan participations	143	75
Cash and equivalents	1,013	791
Short-term investments:		
Municipal securities	788	292
Corporate notes and bonds	209	125
U.S. Treasury securities	199	100
Auction rate preferreds	17	22
Commercial paper	64	15
Short-term investments	1,277	554
Cash and short-term investments	$2,290	$1,345

Property, Plant, and Equipment

(In millions)	June 30 1993	1992
Land	$ 144	$142
Buildings	389	345
Computer equipment	415	324
Other	233	166
Property, plant, and equipment—at cost	1,181	977
Accumulated depreciation	(314)	(210)
Property, plant, and equipment—net	$ 867	$767

Leases

The Company has operating leases for most international and U.S. sales and support offices and certain equipment. Certain leases provide for rental adjustments based on a consumer price index. Rental expense for operating leases was $54 million, $44 million, and $28 million in 1993, 1992, and 1991. At June 30, 1993, future minimum rental payments under noncancelable operating leases were (in millions):

Fiscal Year	Minimum Rental Payments
1994	$ 60
1995	52
1996	37
1997	28
1998	24
1999 and thereafter	55
Total minimum payments	$256

Income Taxes

The provision for income taxes was composed of:

(In millions)	1993	1992	1991
Current:			
U.S. and state	$352	$225	$133
International	123	112	102
	475	337	235
Deferred benefit	(27)	(4)	(27)
Provision for income taxes	$448	$333	$208

Deferred taxes related to timing differences were:

(In millions)	1993	1992	1991
International earnings	$ 12	$ 18	$ 2
Revenues	(11)	(13)	(11)
Cost of revenues	(1)	2	(7)
Expenses	(27)	(11)	(11)
Deferred income tax benefit	$(27)	$ (4)	$(27)

Differences between the U.S. statutory and effective tax rates were:

	1993	1992	1991
U.S. statutory rate	34.0%	34.0%	34.0%
Tax exempt income	(0.6)	(0.6)	(0.9)
Foreign Sales Corporation	(1.0)	(1.0)	(0.7)
Tax credits	(0.9)	(1.1)	—
Other—net	0.5	0.7	(1.4)
Effective tax rate	32.0%	32.0%	31.0%

U.S. and international components of income before income taxes were:

(In millions)	1993	1992	1991
U.S.	$ 960	$ 658	$363
International	441	383	308
Income before income taxes	$1,401	$1,041	$671

During 1993, the Internal Revenue Service concluded its examination of the Company's income tax returns for 1988 and 1989 without material adjustments. Income taxes paid were $187 million, $175 million, and $121 million in 1993, 1992, and 1991. Adoption of *Statement of Financial Accounting Standards No. 109—Accounting for Income Taxes* in the first quarter of 1994 will not have a material impact on the financial statements.

Common Stock

Shares of common stock outstanding were as follows:

(In millions)	1993	1992	1991
Balance, beginning of year	272	261	256
Issued	13	13	11
Repurchased	(3)	(2)	(6)
Balance, end of year	282	272	261

The Company repurchases its common stock on the open market to provide shares for issuance to employees under stock option and stock purchase plans. The Company's Board of Directors authorized continuation of this program for 1994.

Employee Stock and Savings Plans

Employee stock purchase plan. The Company has an employee stock purchase plan for all eligible employees. Under the plan, shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or the last day of each six-month period. Employees may purchase shares having a value not exceeding 10% of their gross compensation during an offering period. During 1993, 1992, and 1991, shares totaling 503,608, 464,519, and 506,038 were issued under the plan at average prices of $66.57, $49.17, and $28.06 per share. At June 30, 1993, 2,131,303 shares were reserved for future issuance.

Savings plan. The Company has a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer up to 15% of their pre-tax salary, but not more than statutory limits. The Company contributes fifty cents for each dollar contributed by a participant, with a maximum contribution of 3% of a participant's earnings. The Company's matching contributions to the savings plan were $6.9 million, $4.9 million, and $3.2 million in 1993, 1992, and 1991.

Stock option plans. The Company has stock option plans for directors, officers, and all employees, which provide for nonqualified and incentive stock options. The Board of Directors determines the option price (not to be less than fair market value for incentive options) at the date of grant. The options generally expire ten years from the date of grant and are exercisable over the period stated in each option. At June 30, 1993, options for 23,176,835 shares were exercisable and 17,043,482 shares were available for future grants under the plans.

	Outstanding Options		
		Price Per Share	
	Number	Range	Weighted Average
Balance, June 30, 1990	56,318,628	$ 0.16 – 32.00	$11.64
Granted	13,770,737	22.22 – 44.78	29.89
Exercised	(10,823,012)	0.16 – 19.72	8.84
Canceled	(1,767,104)	0.33 – 32.00	11.63
Balance, June 30, 1991	57,499,249	0.61 – 44.78	16.54
Granted	14,870,314	41.17 – 79.58	47.54
Exercised	(10,366,610)	0.61 – 33.22	12.99
Canceled	(1,852,434)	3.00 – 77.67	14.77
Balance, June 30, 1992	60,150,519	0.61 – 79.58	24.87
Granted	12,175,751	61.75 – 88.50	68.59
Exercised	(13,075,582)	0.61 – 73.83	15.90
Canceled	(2,214,755)	9.94 – 88.25	28.46
Balance, June 30, 1993	57,035,933	0.61 – 88.50	36.12

Contingencies

On March 17, 1988, Apple Computer, Inc. brought suit against Microsoft Corporation and Hewlett-Packard Company for alleged copyright infringement in the U.S. District Court, Northern District of California. The complaint includes allegations that the visual displays of Microsoft Windows version 2.03 infringe Apple's copyrights and exceed the scope of a 1985 Settlement Agreement between Microsoft and Apple. The complaint seeks to enjoin Microsoft from marketing Microsoft Windows version 2.03 or any derivative work based on Windows 2.03 and from otherwise infringing Apple's copyrights and seeks damages resulting from the alleged infringement. The complaint also alleges that Microsoft is a contributory infringer as to a Hewlett-Packard product called NewWave™.

The Company answered the complaint, denying Apple's allegations that the visual displays in Microsoft Windows version 2.03 infringe any protectible right of Apple, raising affirmative defenses, asserting counterclaims, and seeking damages in an unspecified amount resulting from Apple's actions. In a July 25, 1989 order, the Court held that: (1) the use in Windows version 2.03 of visual displays that are in Windows version 1.0 and the named application programs is licensed under the 1985 Agreement, and (2) the allegedly infringing visual displays used in Windows version 2.03 are in Windows version 1.0, except for seven displays relating to the use of overlapping main application windows and three displays relating to the appearance and manipulation of icons. This means that 179 of the 189 Windows version 2.03 visual displays that Apple alleges are infringing are covered by the 1985 Agreement.

In a June 14, 1991 order, the Court permitted Apple to supplement its complaint to include Windows version 3.0 as an allegedly infringing work. In a July 25, 1991 order, the Court dismissed Microsoft's remaining counterclaim, wherein Microsoft alleged that Apple had breached an implied covenant not to sue for infringement as to any visual displays covered by the 1985 Agreement.

On February 11, 1992, Microsoft disclosed Apple's written claim for $4.4 billion as damages from Microsoft's alleged infringement of Apple's copyrights. Apple later amended this claim to $5.5 billion and more recently to $4.9 billion. Microsoft considers Apple's damages claim to be insupportable under the copyright law and speculative.

In an April 14, 1992 order, the Court ruled that none of the ten remaining allegedly infringed displays in the Windows version 2.03 case is protectible under Apple's copyrights. The Court also ruled that 26 of the allegedly infringing Windows version 3.0 displays are licensed under the 1985 Agreement.

On August 7, 1992, the Court entered an order on the issue of whether the allegedly infringed visual displays in Apple's works are within the scope of its copyrights. The Court also ruled on Apple's motion for reconsideration of the aspects of its April 14, 1992 order not related to the 1985 Agreement. The Court determined that the 23 remaining allegedly infringed visual displays claimed by Apple to be in Windows 3.0 are unprotectible by copyright, are licensed under the 1985 Agreement, or are not similar in the accused product. The Court affirmed its April 14, 1992 order that none of the ten remaining allegedly infringing Windows 2.03 visual displays is protectible by copyright, with the possible exception of aspects of four of the allegedly infringed visual displays in Apple's works that "could possibly be associated with unlicensed, artistic expression to be compared under a 'virtual identity' standard. . . ."

On April 14, 1993, the Court issued an order that clarified the August 7, 1992 order by ruling one of the remaining four items at issue in Windows to be unprotectible by copyright. The April 14, 1993 order also confirmed the applicability of the virtual identity standard to any analysis of similarity of the works in suit as a whole, and established a June 28, 1993 trial date for all issues that remain to be resolved at the time. In an order dated May 18, 1993, the Court dismissed Apple's copyright infringement claims based on six of its copyrights in their entirety, established that the remaining items at issue in Apple's works were unprotectible or not virtually identical in Windows, and again confirmed that the virtual identity standard must be applied when comparing the similarities of Microsoft's works as a whole to Apple's. Microsoft and Hewlett-Packard moved for summary judgment on the remaining claims, and these motions were not opposed by Apple. On June 8, 1993, the Court entered an order dismissing all of Apple's remaining infringement claims, including its contributory infringement claim

against Microsoft. Microsoft anticipates that Apple will take an appeal to the Ninth Circuit Court of Appeals.

In June 1990, Microsoft was notified that it was the subject of a nonpublic investigation being conducted by the staff of the Federal Trade Commission (FTC or Commission). During further communications, the Company learned that the staff wished to determine if Microsoft and the IBM Corporation had entered into an alleged anticompetitive horizontal agreement that was purportedly reflected in a joint press release issued at the COMDEX computer trade show in November 1989.

The existence of this investigation became public knowledge in March 1991 when some third parties disclosed that the FTC staff had contacted them about the investigation. In April 1991, Microsoft learned that, apparently due to complaints from third parties, the staff had decided to broaden the investigation to examine allegations that the Company has monopolized or has attempted to monopolize the market for operating systems, operating environments, computer software, and peripherals for personal computers.

The Company produced documents, witnesses, and other information to the FTC staff in connection with the investigation.

In a Notice of Placement of Commission Action on the Public Record dated August 20, 1993 (the Notice), the FTC disclosed that at a closed meeting on February 5, 1993, Chairman Steiger moved that the FTC staff be authorized to file a complaint in federal court seeking a preliminary injunction against certain alleged Microsoft practices under Section 13(b) of the FTC Act. The motion failed for lack of a majority with two Commissioners voting in favor of the motion, two Commissioners voting against the motion, and one Commissioner recused. The Notice also disclosed that at a closed meeting on July 21, 1993, Chairman Steiger moved that the FTC issue an administrative complaint against the Company. The motion failed for lack of a majority with two Commissioners voting in favor of the motion, two Commissioners voting against the motion, and one Commissioner recused.

In a letter dated August 20, 1993, the Commission notified Microsoft that "it now appears that no further action is warranted by the Commission at this time," and that the investigation had been closed.

The Company was also notified on August 20, 1993 that the U.S. Department of Justice had been granted clearance by the FTC to investigate Microsoft, and would begin its own inquiry.

The Company currently believes that the resolution of these matters will not have a material adverse effect on its financial condition as reported in the accompanying financial statements.

Information by Geographic Area

(In millions)	1993	1992	1991
Net revenues			
U.S. operations	$2,655	$ 1,878	$1,210
European operations	1,289	1,019	708
Other international operations	395	272	187
Eliminations	(586)	(410)	(262)
Total net revenues	$ 3,753	$ 2,759	$1,843
Operating income			
U.S. operations	$ 961	$ 664	$ 373
European operations	360	329	280
Other international operations	18	11	12
Eliminations	(13)	(8)	(15)
Total operating income	$ 1,326	$ 996	$ 650
Identifiable assets			
U.S. operations	$2,944	$ 1,858	$1,278
European operations	1,133	872	578
Other international operations	310	289	208
Eliminations	(582)	(379)	(420)
Total identifiable assets	$3,805	$2,640	$1,644

Intercompany sales between geographic areas are accounted for at prices representative of unaffiliated party transactions. U.S. operations include domestic revenues, exports of finished goods to the Far East and South America, and OEM distribution in the Far East and Europe. Exports and international OEM transactions are in U.S. dollars and totaled $426 million, $255 million, and $188 million in 1993, 1992, and 1991. "Other international operations" primarily include subsidiaries in Australia, Canada, Japan, Korea, and Taiwan. International revenues, which include European operations, other international operations, exports, and OEM distribution, were 55.3%, 55.1%, and 57.3% of total revenues in 1993, 1992, and 1991.

Quarterly Financial And Market Information

(Unaudited)

(In millions, except per share data)	Quarter Ended				
	Sept. 30	Dec. 31	Mar. 31	June 30	Year
1993					
Net revenues	$818	$938	$958	$1,039	$3,753
Gross profit	683	781	797	859	3,120
Net income	209	236	243	265	953
Earnings per share	0.70	0.78	0.80	0.87	3.15
Common stock price per share:					
High	82	95	94-1/4	98	98
Low	65-1/2	75-3/4	76-3/4	79-3/4	65-1/2
1992					
Net revenues	$581	$682	$681	$ 815	$2,759
Gross profit	476	567	571	678	2,292
Net income	144	175	179	210	708
Earnings per share	0.50	0.60	0.60	0.71	2.41
Common stock price per share:					
High	60	74-5/8	88-7/8	86-1/8	88-7/8
Low	40-3/8	57-1/2	73	65-3/4	40-3/8
1991					
Net revenues	$369	$460	$487	$ 527	$1,843
Gross profit	293	367	392	429	1,481
Net income	88	113	124	138	463
Earnings per share	0.32	0.41	0.44	0.48	1.64
Common stock price per share:					
High	35-7/8	34-1/8	50-1/4	52-1/4	52-1/4
Low	22-1/2	23-3/4	32-3/8	42-5/8	22-1/2

The Company has not paid cash dividends on its common stock. The Company's common stock is traded on the over-the-counter market and is quoted on the NASDAQ National Market System under the symbol MSFT. On July 30, 1993, there were 27,769 holders of record of the Company's common stock.

Selected Five-Year Financial Data

(In millions, except employee and per share data)	Year Ended June 30				
	1993	1992	1991	1990	1989
For the year					
Net revenues	$ 3,753	$ 2,759	$1,843	$1,183	$ 804
Cost of revenues	633	467	362	253	204
Research and development	470	352	235	181	110
Sales and marketing	1,205	854	534	317	219
General and administrative	119	90	62	39	28
Operating income	1,326	996	650	393	243
Nonoperating income	75	45	21	17	8
Income before income taxes	1,401	1,041	671	410	251
Provision for income taxes	448	333	208	131	80
Net income	953	708	463	279	171
At year-end					
Working capital	$ 2,287	$ 1,323	$ 735	$ 533	$ 310
Total assets	$ 3,805	$ 2,640	$1,644	$1,105	$ 721
Stockholders' equity	$ 3,242	$ 2,193	$1,351	$ 919	$ 562
Number of employees	14,430	11,542	8,226	5,635	4,037
Common stock data					
Earnings per share	$ 3.15	$ 2.41	$ 1.64	$ 1.04	$0.67
Book value per share	$ 11.50	$ 8.06	$ 5.18	$ 3.59	$ 2.28
Cash and short-term investments per share	$ 8.12	$ 4.94	$ 2.63	$ 1.75	$ 1.22
Average common and equivalent shares outstanding	303	294	282	269	254
Shares outstanding at year-end	282	272	261	256	246
Key ratios					
Current ratio	5.1	4.0	3.5	3.9	3.0
Return on net revenues	25.4%	25.7%	25.1%	23.6%	21.3%
Return on average total assets	29.6%	33.1%	33.7%	30.6%	28.2%
Return on average stockholders' equity	35.1%	40.0%	40.8%	37.7%	36.5%
Growth percentages — increases					
Net revenues	36%	50%	56%	47%	36%
Net income	35%	53%	66%	63%	38%
Earnings per share	31%	47%	58%	55%	37%
Book value per share	43%	56%	44%	57%	47%

Directors

William H. Gates
Chairman of the Board and Chief Executive Officer, Microsoft Corporation

Paul G. Allen
Chairman, Asymetrix Corporation

David F. Marquardt
General Partner, Technology Venture Investors

Robert D. O'Brien
Chairman of the Board, PACCAR, Inc. (retired)

Wm. G. Reed, Jr.
Chairman, Simpson Investment Company

Jon A. Shirley
President and Chief Operating Officer, Microsoft Corporation (retired)

Officers

William H. Gates
Chairman of the Board and Chief Executive Officer

Steven A. Ballmer
Executive Vice President, Sales and Support

Michael J. Maples
Executive Vice President, Products

Bernard P. Vergnes
Vice President, Microsoft; President, Microsoft Europe

Roger Heinen
Senior Vice President, Database and Development Tools

Frank M. (Pete) Higgins
Senior Vice President, Desktop Applications Division

Joachim Kempin
Senior Vice President, OEM Sales

Paul A. Maritz
Senior Vice President, Systems Division

Nathan P. Myhrvold
Senior Vice President, Advanced Technology

Jeffrey S. Raikes
Senior Vice President, Microsoft North America

James E. Allchin
Vice President, Advanced Systems

Michael C. Appe
Vice President, U.S. Sales

Michael W. Brown
Vice President, Finance; Treasurer

Raymond A. Emery
Vice President, Manufacturing and Distribution

Richard Fade
Vice President, Far East Region

David L. Fulton
Vice President, Database Products

Gary E. Gigot
Vice President, Marketing

Jonathan D. Lazarus
Vice President, Systems Strategy

Robert L. McDowell
Vice President, Education and Consulting Services

Craig Mundie
Vice President, Advanced Consumer Technology

Michael R. Murray
Vice President, Human Resources and Administration

William H. Neukom
Vice President, Law and Corporate Affairs; Corporate Secretary

Darryl E. Rubin
Vice President, Software Strategy

Brad A. Silverberg
Vice President, Personal Systems Group

Christopher F. Smith
Vice President, International Operations

Patricia Q. Stonesifer
Vice President, Consumer Division

Neil R. Evans
Chief Information Officer

Corporate Headquarters

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One Microsoft Way
Redmond, WA 98052-6399
USA

Manufacturing

Microsoft Corporation
Manufacturing and Distribution
Center at Canyon Park
21919 20th Avenue SE
Bothell, WA 98021
USA

Microsoft Manufacturing B.V.
Blackthorn Road
Sandyford Industrial Estates
Dublin 18
IRELAND

Microsoft Puerto Rico, Inc.
Humacao Industrial Park
Road 3, KM 77.0 vice 77.8
Humacao 00661
PUERTO RICO

European Headquarters

Microsoft Europe
Tour Pacific
Cedex 77
92977 Paris-La Defense
FRANCE

International Operations

Microsoft de Argentina S.A.
Buenos Aires ARGENTINA

Microsoft Pty.
Sydney AUSTRALIA

Microsoft GesmbH
Vienna AUSTRIA

Microsoft NV
Brussels BELGIUM

Microsoft Informatica Ltda
Sao Paulo BRAZIL

Microsoft Canada Inc.
Toronto CANADA

Microsoft Chile S.A.
Santiago CHILE

Microsoft Colombia
Bogota COLOMBIA

Microsoft S.R.O.
Prague CZECH REPUBLIC

Microsoft Danmark ApS
Hedenhusene DENMARK

CorporaciónMicrosoft del Ecuador
Quito ECUADOR

Microsoft OY
Helsinki FINLAND

Microsoft S.A.R.L.
Paris FRANCE

Microsoft GmbH
Munich GERMANY

Microsoft Hellas SA
Athens GREECE

Microsoft Hong Kong Limited
HONG KONG

Microsoft Systems Private Limited
New Delhi INDIA

Microsoft Israel LTD.
Tel Aviv ISRAEL

Microsoft S.p.A.
Milan ITALY

Microsoft KK
Tokyo JAPAN

Microsoft CH
Seoul KOREA

Microsoft Malaysia Sdn Bhd
Kuala Lumpur MALAYSIA

Microsoft Mexico, S.A. de C.V.
Mexico City MEXICO

Microsoft BV
Hoofddorp NETHERLANDS

Microsoft New Zealand
Auckland NEW ZEALAND

Microsoft Norge AS
Oslo NORWAY

Microsoft P.R.C.
Beijing, China
THE PEOPLE'S REPUBLIC OF CHINA

Microsoft sp. z.o.o.
Warsaw POLAND

Microsoft, Lda
Lisbon PORTUGAL

Microsoft Caribbean, Inc.
Guaynabo PUERTO RICO

Microsoft Taiwan Corp.
Taipei, Taiwan
REPUBLIC OF CHINA

Microsoft AO
Moscow RUSSIA

Microsoft Singapore Pte Ltd
Singapore REPUBLIC OF SINGAPORE

Microsoft South Africa
Johannesburg SOUTH AFRICA

Microsoft Iberica, S.R.L.
Madrid SPAIN

Microsoft AB
Stockholm SWEDEN

Microsoft AG
Zurich SWITZERLAND

Microsoft (Thailand) Limited
Bangkok THAILAND

Microsoft Middle East
Dubai UNITED ARAB EMIRATES

Microsoft Ltd
Berkshire UNITED KINGDOM

Corporation MS 90 de Venezuela, S.A.
Caracas VENEZUELA

Annual Meeting

The Annual Meeting of Stockholders will be held on Friday, October 29, 1993, at 8:00 A.M., at the Hyatt Regency Bellevue at Bellevue Place, 900 Bellevue Way NE, Bellevue, Washington.

Form 10-K

Copies of Microsoft's Annual Report on Form 10-K are available upon written request from the Investor Relations Department, Microsoft Corporation, One Microsoft Way, Redmond, Washington 98052-6399.

Common Stock

Microsoft common stock is traded over the counter on the NASDAQ National Market System (MSFT).

Independent Auditors

Deloitte & Touche, Seattle, Washington 98104

Legal Counsel

Preston Thorgrimson Shidler Gates & Ellis, Seattle, Washington 98104

Transfer Agent

First Interstate Bank, Ltd., 26610 West Agoura Road, Calabasas, California 91302

Stockholder Inquiries

To notify Microsoft of address changes or lost certificates, stockholders can call First Interstate toll-free at (800) 522-6645.

For a list of complete subsidiary addresses, please contact Microsoft Investor Relations.

Microsoft is committed to using our own products in the workplace, and we view this technology as an essential element in the success of our Company. A variety of Microsoft products were used in the development of this annual report, including Microsoft Word, Microsoft Excel, and Microsoft Encarta.

Companies, names, and/or data used in screens are fictitious unless otherwise noted.

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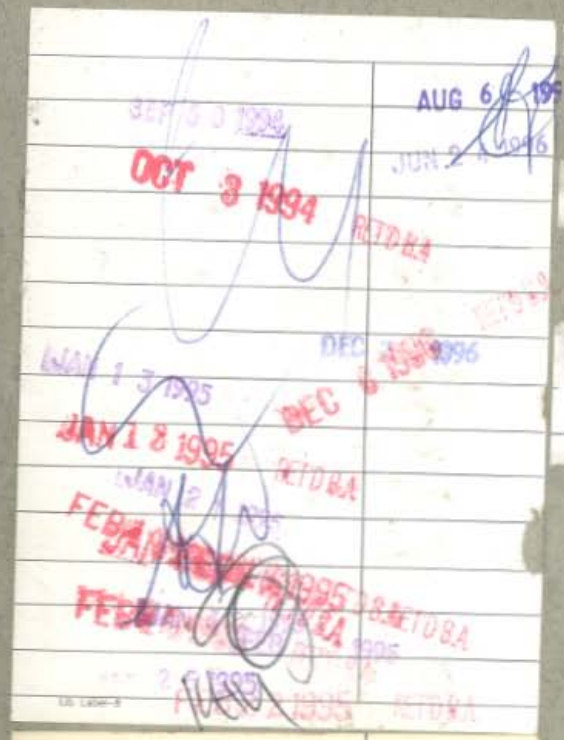
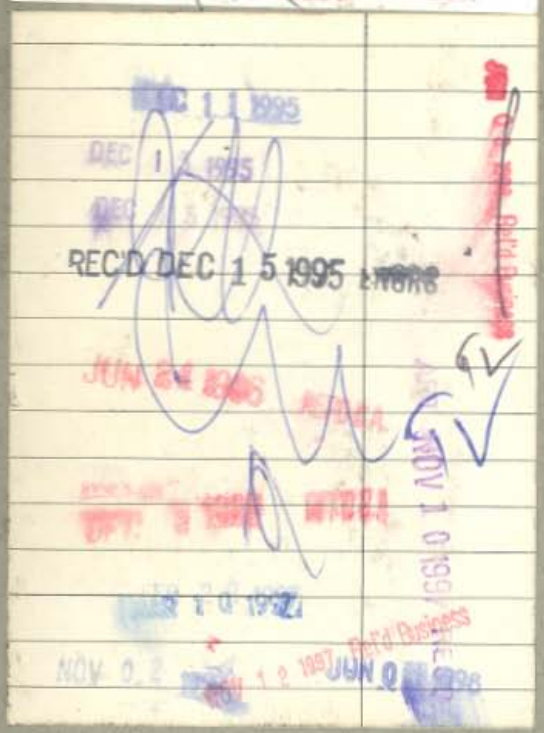
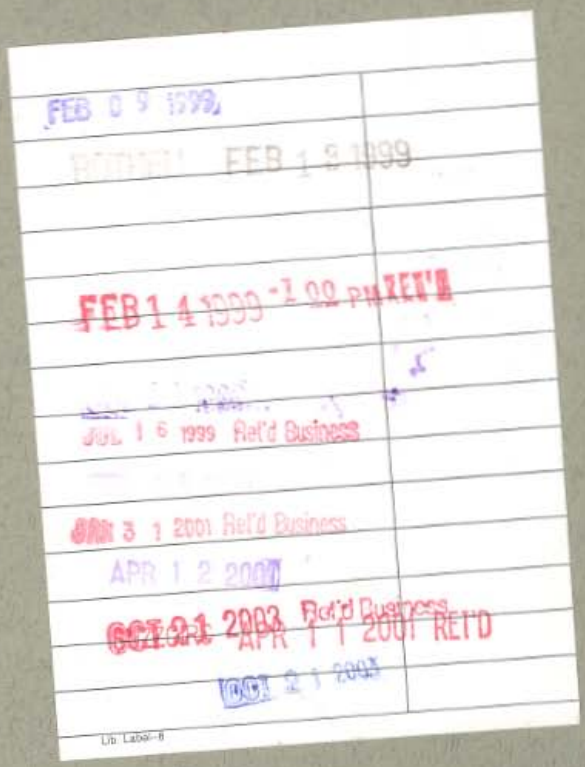
One Microsoft Way
Redmond, WA 98052-6399
USA







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